

DNRC FIRE COST REPORT

A Report Prepared for the

Legislative Finance Committee

By

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October 2, 2003

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PURPOSE AND SCOPE

The purpose of this report is to provide an update and overview of the financial impact of the 2003 fire season on the state budget for fiscal 2004. More specifically, the report will discuss the types of wildfire costs and impact of timing, status of fiscal 2004 fire cost estimates, sources of funding, cost and average cost estimates, and options to examine the current fire funding methodology.

TYPES OF WILDFIRE COSTS

There are three basic types of wildfire costs. Each kind of cost affects the general fund in a different way. The following provide a description of the costs, timing, and affect on the general fund:

1) Suppression costs that must be paid immediately

These costs include payroll to department personnel assigned to fire fighting and payments to local vendors providing necessary provisions. For example, on large complex fires, meals are supplied by a federal contract. The Forest Service will bill DNRC after the fire season for the state's portion of these costs. However, if a fire erupts that does not require the services of the contract caterer, local vendors must be paid for providing meals to firefighters. Portable bathroom facilities, land leases for a base camp, and vehicle repairs and maintenance are examples of immediate costs.

Because the agency is required to pay many of these local vendors on a short-term basis, these costs are accumulated quickly and can be tracked on SABHRS. As of September 25, 2003, DNRC and the Department of Military Affairs (DMA) have accumulated and paid approximately \$24.8 million on bills of this nature for the fiscal 2004 fire season. Funding for these expenditures has come from the Federal Jobs and Growth Tax Relief Reconciliation Act (FJGTRA) money granted to the State of Montana.

2) Costs for which DNRC will not be responsible until after the end of the fire season

The largest, most significant of these bills is termed the "Forest Service bill." The Forest Service bill contains many components. Some costs are paid up front and some will be billed later. Like DNRC, the federal government agrees to pay some costs as an immediate need arises. If a fire occurs on state responsibility land, DNRC will ultimately be responsible for the cost even if the Forest Service pays the initial bill.

In addition to bills paid immediately, the Forest Service has a vast supply network from which DNRC obtains vital fire fighting tools, equipment, and supplies. The immediate nature of fighting fires coupled with an increased demand on a national scale can create shortages of protective equipment and clothing. Thus, the Forest Service has developed a supply system for these necessary items. For example, if the State of Montana needs an air-tanker, it is requested through the Forest Service. Depending upon availability and level of priority, Montana will either receive the shipment quickly or will be placed on a waiting list. In either case, the cost will not have to be paid until the "Forest Service" bill is received.

Although it is termed as the Forest Service bill, there is often a myriad of entities involved. For example, if the State of Georgia sends a team of fire fighters, the State of Washington sends a couple of bulldozers, and the Bureau of Land Management (BLM) sends a helicopter to assist in the fire fighting efforts, the state does not pay these bills individually. Rather, each entity involved submits a bill to the Forest Service. Acting as a clearinghouse for fire suppression costs, the Forest Service consolidates, reconciles, and audits the final bill that is ultimately sent to Montana. Once DNRC receives its bill, a team of workers will verify that all costs are correct and accurate.

3) Net cost

While DNRC faces immediate cash needs and the cost of fires seems ominous, the net cost of fighting fires can be much less than the total cost. Similar to the Forest Service bill, DNRC submits a bill of federal responsible costs of fighting wildland fires on federal responsible land. Accounting practices do not allow DNRC to “offset” bills with the Forest Service. Thus, DNRC must submit their bill to the Forest Service and wait for payment. Although the state is required to pay this bill rather quickly, payment is not received from the Forest Service for at least a year. The bill swapping ritual will be concluded sometime after the first of the year.

Occasionally, a fire season is severe enough to cause wide spread damage or threaten lives or structures. When this happens Federal Emergency Management Agency (FEMA) funding may become available to pay a portion of the fire cost. Although costs may have to be paid in the short-term, FEMA reimbursements will ultimately reduce the total fire cost. In fiscal 2004, the State of Montana has FEMA eligible costs that will eventually offset the total fire cost.

SOURCES OF FUNDING

Generally, there are two sources of funding to pay Montana’s fire costs: 1) DNRC’s operating budget (later reimbursed in a supplemental appropriation); and 2) the Governor’s emergency fund (if a disaster or emergency has been declared). In this fire season, two additional sources of revenue became available to pay for fire suppression costs: FEMA funding and FJGTRA grant money.

INTERNAL DEPARTMENT

The department must pay: 1) all costs prior to the Governor’s emergency declaration and FEMA declarations; and 2) all costs after both declarations are ended. Historically, the department used existing general fund appropriations to pay for fire costs. Then, during the legislative session, a supplemental appropriation made on-going operations whole again.

During the last legislative session, general fund appropriations in the Water Resources Division and the Forestry and Trust Lands Division were designated as biennial in nature. This designation provided the department with increased flexibility to pay for fire costs.

GOVERNOR’S EMERGENCY FUND

When the Governor declares an emergency or disaster, 10-3-312 MCA provides a \$16 million statutory, biennial appropriation to be used by state agencies to fund related costs. Because it is

a biennial appropriation, and because many agencies can be affected by an emergency or disaster, DNRC does not have exclusive access to all of the emergency authority in the event of a fire emergency or disaster. There has not been a Governor's emergency fund appropriation established during fiscal 2004.

FEMA

Fire Management Assistance Program (FMAP) allows for mitigation, management, and control of fires burning on publicly or privately owned forest or grassland that threatens a level of destruction that would constitute a major disaster. Examples of eligible costs include personnel, camps and meals provided to fire fighters and support personnel, equipment use, replacement value of equipment lost, mobilization and demobilization, and administrative costs associated with the grant. Ineligible costs are those that would not ordinarily be paid by the state.

For example, reforestation efforts or mutual aid response or assistance provided without a current cooperative fire agreement that authorizes payment would not be considered eligible. Other ineligible costs are restoration of facilities, timber salvage, erosion control, or, with the exception of the mobilization and demobilization costs, costs incurred outside of the incident period. As of this writing, the FEMA FMAP grant is estimated at \$36.1 million. Please keep in mind that these are very early estimates and these numbers will change. After the fire season ends, more accurate estimates will be available.

How is the amount of reimbursement determined?

Because a FEMA fire suppression grant is designed to be an assistance program, a cost share platform is in place where the suppression grant covers 75 percent of eligible costs, and the state must cover 25 percent of eligible costs. A request for assistance is warranted when a state determines its capabilities may be overwhelmed by a single fire or fire complex that may become a major disaster affecting life and property.

FEMA approves a state's grant application after individual or cumulative threshold costs are met. A formula is used to determine individual and cumulative threshold costs. On an individual fire basis, the FEMA threshold is the greater of \$100,000 or five percent multiplied by \$1.09 multiplied by the state population. If there are many fires burning, a state's threshold is the greater of \$500,000 or three times the individual fire cost threshold. Montana has met the cumulative fire cost threshold of \$500,000 and will receive a grant equivalent to 75 percent of remaining eligible costs. As stated, at the time of this report, the FEMA grant is estimated to be \$36.1 million.

FJGTRA

Congress granted fiscal relief funds under the Federal Jobs and Growth Tax Relief Reconciliation Act to the State of Montana and imposed few limits on the use of this money. The federal act requires that the funds: 1) be used to provide essential government services; 2) be used to cover state costs incurred to comply with unfunded federal mandates; and 3) can only be used for expenditures permitted under the most recently approved budget for the state.

Although there are no restrictions that prohibit the use of these funds for fire suppression or other fire related activities, the Legislative Auditor is raising an issue that using these federal dollars for FEMA eligible fires would violate provisions of the Office of Management and Budget's

OMB Circular A-87 that prohibits a state from using federal dollars as a match for a federal grant. In order to receive a grant, FEMA requires a 25 percent state cost match on FEMA eligible fires. Montana's match amount is currently estimated at \$12.0 million. As stated, as of the writing of this report, the State of Montana has utilized over \$24.8 million of these funds for all fire-related activities.

DNRC FIRE COST ESTIMATE

<i>Legislative Fiscal Division</i>	
Natural Resources and Conservation	
Fiscal 2004 Estimated Fire Costs *	
PART 1:	
<u>FY 2003 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of September 25, 2003	\$63,069,779
DNRC Support to Federal/Other State Agencies	2,315,257
Estimated Spring 2004 Fire Costs	200,000
DNRC Estimated Budgeted Cost	<u>(100,000)</u>
PAID & ANTICIPATED OBLIGATIONS	\$65,485,036
PART 2:	
<u>COSTS COVERED BY OTHER SOURCES</u>	
Federal Reimbursement U.S. Forest Service	(\$2,315,257)
Total Cost Covered by Other Sources	(2,315,257)
ESTIMATE OF UNPAID BALANCE	<u>\$63,169,779</u>
PART 3:	
<u>REMAINING FIRE COST TO THE STATE OF MONTANA</u>	
PAID & ANTICIPATED OBLIGATIONS	\$65,485,036
Assistance to Other Agencies	(\$2,315,257)
FEMA Reimbursement **	(\$36,068,534)
Governor's Emergency Fund Advance	<u>\$0</u>
Total Payments by Other Entities	<u>(38,383,791)</u>
Preliminary Net Cost to the State	\$27,101,245
Less: Federal Jobs and Growth Tax Reconciliation Act Fiscal Relief Money ***	<u>(\$24,781,560)</u>
Remaining Fire Suppression Cost	<u>\$2,319,685</u>
<p>* NOTE: All cost information is based upon best available estimates at the time of compilation and is subject to fluctuation. The cost for all fires that Montana has some financial responsibility is estimated at \$112.2 million. Negotiations are in progress to determine the final state share of those fires. Thus, the legislature can expect changes in the fire cost numbers.</p> <p>** \$48.1 million eligible cost X 0.75. Estimated State share is \$12.0 million</p> <p>*** The Legislative Auditor is raising an issue about using FJGTRA money to pay the state's portion of FEMA eligible fire costs. Thus, the state may have to seek another funding source to pay the state portion of FEMA eligible fire costs.</p>	

Part 1 of the table shows total estimated costs for DNRC's fire suppression efforts, including the anticipated bill from the federal government for assistance in fighting Montana fires. The department must: 1) pay \$63.1 million to cover actual state protection costs. This figure includes an estimated \$2.8 million of fire costs incurred by the Department of Military Affairs for its role

in fire suppression efforts; 2) pay an estimated \$2.3 million to assist federal and other state agencies in their fire suppression efforts. These are reimbursable costs; 3) set aside an estimated \$0.2 million for anticipated Spring 2004 wildfire costs; and 4) deduct approximately \$0.1 million for personnel costs that had been budgeted in HB 2. These calculations bring the cost of fire suppression to approximately \$65.5 million.

Part 2 shows those portions of the cost that have been covered by non-DNRC funds such as the Governor's emergency fund. There have been no Governor's emergency fund appropriations established in fiscal 2004. Costs incurred while assisting other state and federal entities total \$2.3 million and are expected to be reimbursed.

Part 3 shows the estimated net cost of fire suppression incurred by DNRC and DMA. When Montana firefighters help other agencies suppress fires, Montana is reimbursed for associated expenses. DNRC estimates that reimbursements from other states for Montana's assistance in fighting their fires will be \$2.3 million. In addition, there were several FEMA eligible fires in Montana. Consequently, the state is estimating a grant award of \$36.1 million. Thus, the net cost of fire suppression in fiscal 2004 is estimated to be \$27.1 million.

Because some of these fire costs are short term in nature, the Office of Budget and Program Planning processed documents to utilize \$24.8 million of FJGTRA grant money to help pay costs such as payroll costs, which are due in the short term. After this payment and expected reimbursements, the remaining fire cost totals \$2.3 million.

AVERAGE FIRE COST

Currently, the State of Montana experiences an average total fire cost of \$18.3 million per year. This amount is based upon a seven year average in which the total fire cost from the most recent seven years are averaged after the high and low years are removed from the calculation.

One might argue that the total fire cost isn't an accurate representation of the actual impact on state resources. However, this approach should be used with caution. Because the state is obligated to pay fire costs, a situation could arise in which the department would be required to pay for all fire costs in a given fiscal year.

For example, an audit delay at the federal level could result in reimbursements or grants that would not be received until after the end of the fiscal year in which the costs were incurred. Although the net cost can be substantially lower than the total cost, having to pay the total cost in a given fiscal year may strain state resources. As the figure above shows, the five-year average of the cost of suppression is substantial.

Net Cost of Fire Suppression			
Fiscal Year	Total Cost	Reimbursements	Net Cost
1998*	870,638	(97,297)	773,341
1999	8,303,438	(2,402,172)	5,901,266
2000	5,205,614	(914,375)	4,291,239
2001	54,925,104	(44,784,017)	10,141,087
2002	16,417,193	(3,549,700)	12,867,493
2003	6,710,688	(4,684,927)	2,025,761
2004 (estimate)*	\$65,485,036	(38,383,791)	<u>27,101,245</u>
5 Year Average Cost	<u>\$18,312,407</u>		<u>\$7,045,369</u>
7 year Average Cost (high and low included)	\$22,559,673		\$9,014,490
* Not included in the 5 year average calculation			

CONCLUSION

Without FJGTRA and FEMA grant funding, in fiscal 2004, the State of Montana would be faced with fire bill estimated to be \$63.2 million. For example, \$24.8 million of FJGTRA grant money has been used to pay for fire costs. Although the fire costs will be paid, the opportunity to use this funding source for other purposes has been lost. Further, without a FEMA grant, Montana would have to pay an additional \$36.1 million worth of fire costs. Therefore, while Montana should be able to get through the fiscal 2004 fire season, the legislature is relying upon \$60.9 million of either one-time, or in the case of FEMA, uncertain sources of federal money to pay fire costs.

Historically, the legislature does not budget for fire suppression costs. Instead, fire costs are typically paid using the department's general fund appropriation and through the unbudgeted emergency appropriation if an emergency or disaster are declared. This fire season is unique because neither the general fund appropriation nor the emergency fund is being used to pay for fire costs. Without FJGTRA and FEMA grant funding in fiscal 2004, paying ongoing fire costs would be difficult at best. Arguably, the magnitude of fire suppression costs over the last several years is straining state resources.

Although the legislature chooses not to budget general fund authority specifically for wildland fire suppression costs outside of the emergency process, it has demonstrated its commitment to pay for all fire suppression costs through the supplemental appropriation process. While this process functions, it is problematic.

For example, lack of spending authority potentially puts the legislature in the position of calling a special session if internal authority, emergency funding, FEMA, and borrowing are not sufficient to cover suppression costs. Further, using internal authority intended for ongoing operations for fire suppression could make it difficult for the department to complete legislatively mandated tasks. Thus, the LFC may wish to examine how fire suppression is funded.